

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF MUHLENBERG COUNTY WATER)	
DISTRICT (A) FOR A CERTIFICATE OF PUBLIC)	
CONVENIENCE AND NECESSITY (1) APPROVING THE)	
CONSTRUCTION OF NEW PLANT FACILITIES:)	
(2) APPROVING THE ISSUANCE OF CERTAIN)	
SECURITIES; AND (3) AUTHORIZING ADJUSTMENT)	
OF WATER SERVICE RATES AND CHARGES; AND)	
(B) FOR AN ORDER APPROVING THE MERGER OF)	CASE NO. 9539
MUHLENBERG COUNTY WATER DISTRICT AND)	
MUHLENBERG COUNTY WATER DISTRICT (GRAHAM))	
UNDER THE TERMS OF KRS 74.363 AND THE)	
APPLICATION OF ESTABLISHED RATES OF)	
MUHLENBERG COUNTY WATER DISTRICT TO THE)	
CUSTOMERS OF MUHLENBERG COUNTY WATER)	
DISTRICT (GRAHAM))	

O R D E R

Muhlenberg County Water District ("Muhlenberg") by application filed March 28, 1986, is seeking approval of adjustments to its water service rates, authorization to construct a \$2,141,000 waterworks improvement project, approval of its plan of financing for this project, and approval of a merger of Muhlenberg County Water District No. 1 ("Graham") into Muhlenberg in accordance with KRS 74.363. The project is funded by a \$2,141,000 loan from the Farmers Home Administration ("FmHA"), secured by waterworks revenue bonds maturing over a 40-year period, at an interest rate of 8 5/8 percent per annum.

The proposed construction will be capable of providing water service to 32 new customers, and improve the hydraulic capacity of the system. Drawings and specifications for the proposed

improvements by Mayes, Sudderth & Etheredge, Inc., of Lexington, Kentucky, ("Engineer") have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

A hearing was held in the offices of the Public Service Commission, in Frankfort, Kentucky, on December 4, 1986. There were no intervenors and no protests were entered.

The increase requested by Muhlenberg for the merged system would produce additional revenues of approximately \$452,163 annually, an increase of 45.8 percent over normalized test-year operating revenues.

Muhlenberg is a non-profit water district serving approximately 4,000 residences in the southern two-thirds of Muhlenberg County. Graham is also a non-profit water district, serving approximately 230 residences in central Muhlenberg County. The decision of the Commission is based on information contained in the application, written submissions, the staff audit report, annual reports, response to hearing questions and other documents on file in the Commission's offices. After the adjustments and determinations herein, Muhlenberg, as merged, is granted authority to increase rates to produce additional operating revenue of \$351,922, or 35.7 percent over the normalized test-year operating revenues.

CONTINUITY OF ADEQUATE AND RELIABLE SERVICE

The evidence indicates that reliable and adequate service can be maintained throughout most of the expanded system after completion of the proposed construction. However, several areas to be served could have service pressures below 30 psig, in violation of

807 KAR 5:066, Section 6 (1). The Engineer admitted that the low pressure areas on Cornette Road, Cleaton Branch and near the Cleaton Tank could be improved by the installation of hydropneumatic stations to serve the affected customer or customers if necessary.

REVENUES AND EXPENSES

Muhlenberg and Graham have proposed, and the Commission accepts, the 12-month period ending December 31, 1985, as an appropriate test period for determining the reasonableness of the proposed rates. In utilizing the historical test period, the Commission has given full consideration to known and measurable changes found reasonable.

Because of the request to approve merger, Muhlenberg and Graham proposed several adjustments to revenues and expenses in its application. The Commission is of the opinion that the proposed adjustments are proper and acceptable for rate-making purposes with the following modifications:

Staff Audit Report

The Commission staff performed a limited financial audit of Muhlenberg's and Graham's test-year operating expenses in accordance with the Uniform System of Accounts ("USoA") and related to the test year. The staff audit report was made a part of the record in this case on August 7, 1986. The Commission hereby adopts the staff's adjusted operating statement as the test-period operating statement for purposes of this case. Based upon the findings in the report, adjustments were made to test year

operations resulting in a pro forma net loss of \$130,200 for Muhlenberg and \$6,496 for Graham.

Normalized Revenues

For the test year Muhlenberg and Graham reported combined metered water sales of \$825,464 and sales of water for resale of \$60,337. The sales of water for resale include Muhlenberg's sales to Graham during the test year totaling \$26,494, which was deleted because of the merger. Remaining sales for resale were normalized and totaled \$37,982.

The Commission's Order of October 9, 1985, in Case No. 9262¹ granted Muhlenberg an increase in its metered water rates. A rate and billing analysis prepared by Muhlenberg's consulting engineer was filed with the present case, normalizing metered water sales revenues not only to reflect the impact of Case No. 9262, but incorporating the Graham customers into the merged system and adjusting the amounts to test-year-end customer levels. Metered water sales have also been adjusted to reflect the benefit of free water to the commissioners of Muhlenberg totaling \$564 annually. Therefore, the merged test-year metered water sales revenues should also be adjusted to include \$104,758 due to these items. This results in normalized test-year metered water sales revenues for the merged system of \$930,222 and sales of water for resale of \$37,982.

¹ In the Matter of the Application of the Muhlenberg County Water District, A Water District Organized Pursuant to Chapter 74 of the Kentucky Revised Statutes for a General Adjustment of Rates and Revision of Rates, Case No. 9262, Final Order issued October 9, 1985.

Other Water Revenues

Included in Muhlenberg's Other Water Revenues Account was \$4,686 in surcharge revenues associated with its Water Loss Demonstration Project. As will be explained later in this Order, Muhlenberg's participation in this program will be terminated as of the effective date of this Order. Therefore, test-year other water revenues have been reduced by \$4,686.

Purchased Water

Muhlenberg reported \$362,164 in test-year purchased water expense. The purchased water expense for Graham was in effect already included in this amount, because Graham purchased all its water from Muhlenberg. Muhlenberg originally proposed an adjustment of \$12,903 annually to increase purchased water expense in order to reflect the test-year-end number of customers for a full year. Muhlenberg later increased the adjustment to \$25,153 annually to also include the estimated usage of approximately 200 additional customers² which it hoped to serve in the Lone Star area beginning in late 1987.³

The Commission is of the opinion that the inclusion of the usage of the additional 200 customers is too far beyond the test year to provide meaningful estimates of cost and revenue effects and does not meet the criteria of "known and measurable."

² Response to the Commission's Information Request No. 2 dated August 11, 1986, Question No. 8.

³ Hearing Transcript dated December 4, 1986, page 48.

Therefore the expense adjustments will be confined to those originally proposed.

The Commission is also of the opinion that the merged Muhlenberg system is only entitled to a maximum 15 percent unaccounted-for water for rate-making purposes. The consulting engineer's rate and billing analysis shows the test-year-end adjusted gallons sold to be 297,790,082 gallons. Based on a maximum unaccounted-for water of 15 percent, gallons sold of 297,790,082 gallons, and the current supplier rate of 89.1 cents per thousand gallons, the Commission has determined purchased water expense for the merged system to be \$312,154 annually. Therefore, the Commission has decreased test-year purchased water expense by \$50,010 annually.

Labor Wages and Salaries

Wages and salaries were recorded in four accounts: Account No. 640 - Operation Labor, Account No. 901 - Meter Reading Labor, Account 902 - Accounting and Collecting Labor and Account No. 920 - Administrative and General Salaries, for a combined total in the test year of \$196,829.⁴ Muhlenberg proposed three adjustments: increase Account No. 640 by \$1,513; increase Account No. 901 by \$1,694 and increase Account No. 902 by \$2,805, based upon the proportioned increase in miles of water line to be added to the system and the proportioned increase in customers to reflect test

⁴ Response to the Commission's Information Request No. 1 dated May 14, 1986, Question No. 18; Account Nos. 640, 901 and 902, plus staff audit reduction of \$375.

year-end levels.⁵ No adjustment was proposed for Account No. 920; however, the Muhlenberg field superintendent, who was a salaried employee, left the system in early 1986. His assistant was moved to field superintendent with no change in salary. A person was hired to assist the new superintendent at an hourly wage.⁶ At the hearing, the consulting engineer stated that no other employees had been hired.⁷

For the increases proposed for Account Nos. 640 and 901, adjustments should be based upon changes in the number of employees, hours worked, or in the wage rates paid. Since no new employees were added and no changes in the wages were proposed, increases in Account Nos. 640 and 901 are not allowed for rate-making purposes. However, the number of employees' hours worked and the wage rates did change for those wages and salaries recorded in Account Nos. 902 and 920. For Account No. 902, the annualization of wage rates and hours worked, coupled with a retirement, produces an increase of \$9,035. For Account No. 920, the termination of the field superintendent and hiring of an assistant at an hourly wage produces a decrease of \$9,620. Therefore, the increase to Account No. 902 of \$9,035 and the decrease to Account No. 920 of \$9,620 have been included for rate-making purposes.

⁵ Ibid.

⁶ Hearing Transcript dated December 4, 1986, page 78.

⁷ Ibid., page 52.

During the review of the labor wages and salaries, it was discovered that included in the test year expenses were overtime payments totaling \$20,557, for 2,565 hours of work. At the hearing, it was stated that overtime in 1986 was running at about the same levels as the test year.⁸ The existence of such large amounts of overtime would tend to indicate that the need exists for additional employees, either full- or part-time. Occasional use of overtime is to be expected, but the levels experienced by Muhlenberg are totally unacceptable. The Commission, in this instance, will allow the overtime wages to be included for rate-making purposes. However, the Commission instructs Muhlenberg to reduce the overtime hours by hiring additional employees, either full- or part-time, and by establishing stricter controls on the earning and payment of overtime hours.

Uncollectible Accounts

Muhlenberg proposed an increase of \$204 to the uncollectible accounts expense for the newly merged system, to reflect the increase in the test year-end number of customers. Another method for estimating the balance for uncollectible accounts would be a historic percentage of uncollectible accounts to metered water sales. At the hearing, the consulting engineer agreed that such a historic percentage applied to the expected metered water sales would produce a good estimate.⁹ A review of the historic balances in uncollectible accounts compared to the corresponding metered

⁸ Ibid., page 78.

⁹ Ibid., page 53.

water sales yields .57 percent. When this percentage is applied to the normalized metered sales of \$930,222, the balance for uncollectible accounts would be \$5,302, or an increase of \$1,334 over the test year balance. When applied to the pro forma metered water sales, the balance for uncollectible accounts would be \$7,312, or an increase of \$2,010 over the normalized test year balance. Therefore, the Commission has increased the balance for uncollectible accounts by \$3,344 for rate-making purposes herein.

Depreciation Expense

Muhlenberg originally submitted a depreciation schedule which combined the Graham and expansion project utility plants into one block and calculated depreciation expense. The calculations reflected Graham's contributions in aid of construction ("CIAC") and the fact that some of Graham's plant had been retired in place, but still was recorded in the plant accounts. Clarifications were requested and received in the response to the Commission's Information Request No. 1.¹⁰ Further information was sought and provided in the response to the Commission's Information Request No. 2.¹¹ In each instance, a different depreciation expense for the merged systems was presented. The combined depreciation expense for the test year was \$114,673.¹²

¹⁰ Response to the Commission's Information Request No. 1 dated May 14, 1986, Question No. 19.

¹¹ Response to the Commission's Information Request No. 2 dated August 11, 1986, Question No. 11.b.

¹² Original Application, Exhibits A1 and A2, page 10, line 33. \$111,984 + \$2,689 = \$114,673.

In addition, the submitted schedules did not provide a breakdown of the expansion project as bid and included the depreciation of land and land rights. However, the submitted depreciation schedules did use the service lives outlined by the National Association of Regulatory Utility Commissioners' publication, Depreciation Practices for Small Water Utilities, August 15, 1979.

Because of the confusion and contradictions which appeared in the submitted schedules, all were rejected and the depreciation expense recalculated for rate-making purposes. The total utility plant for Graham was reduced from \$134,425 to \$79,145 to reflect plant retired when Graham stopped producing water and started purchasing it from Muhlenberg.¹³ The amounts for the expansion project plant additions reflected the contract bid prices as well as the removal of land and land rights from the total.

Both Muhlenberg and Graham have CIAC associated with their utility plants. In the submitted schedules, CIAC was deducted from the calculations in accordance with the Commission's past rate-making practice. On November 26, 1986, the Supreme Court of Kentucky rendered a decision in the cases of Public Service Commission of Kentucky v. Dewitt Water District, 86-SC-342-DG and East Clark Water District and Warren County Water District v. Public Service Commission and David L. Armstrong, Attorney General, Division of Consumer Protection, 86-SC-362-DG, finding that depreciation expense on contributed property should be recognized for rate-making purposes. Consequently, CIAC has been

¹³ Hearing Transcript dated December 4, 1986, pages 55, 79-80.

included herein in the calculation of depreciation expense. Therefore, after including the various facts, the Commission finds that the appropriate adjusted test-year depreciation expense for the merged system is \$229,054.¹⁴ The Commission also finds that Graham's retired plant in place inflates the total plant and therefore the plant figure should be reduced by \$55,280.¹⁵

Non-Recurring Expenses

During the staff audit, a series of expenditures were discovered which were of a non-recurring nature. These expenses included \$8,103 in charges recorded in Account No. 903 - Customer Accounts, Supplies and Expenses for costs associated with the purchase of an in-house computer and the services of a computer firm; \$241 recorded in Account No. 920 - Administrative and General Salaries for wage reimbursement to a Muhlenberg commissioner who attended a rate case conference; and \$1,358 recorded in Account No. 930 - Miscellaneous General Expenses for duplicate payments and retirement gifts and dinner. Therefore, the

¹⁴ Computation of Depreciation Expense:	
Graham Depreciation, Excluding CIAC	\$ 1,464
Muhlenberg Depreciation, Excluding CIAC	119,274
Expansion Project Depreciation	<u>62,817</u>
Subtotal	\$183,555
Graham CIAC Depreciation	695
Muhlenberg CIAC Depreciation	<u>44,804</u>
TOTAL DEPRECIATION EXPENSE	<u>\$229,054</u>
 ¹⁵ Graham Utility Plant, Per 1985 Annual Report	
Graham Utility Plant Still in Service	<u>\$134,425</u>
GRAHAM UTILITY PLANT RETIRED IN PLACE	<u>\$ 55,280</u>

Commission has not included these non-recurring charges for rate-making purposes herein.

Interest on Long-Term Debt

Muhlenberg proposed an increase to interest expense of \$177,081 for the FmHA loan for the \$2,141,000 expansion project, at the interest rate in effect at the time of the FmHA loan approval, which was 8 5/8 percent. Under current FmHA loan provisions, Muhlenberg is allowed the option of seeking the interest rate in effect at the time of the loan closing or when FmHA fund advances begin. Using the rates that will be in effect at the time of the fund advances, the annual expense on the new loan will be \$141,841.¹⁶ Thus, with the anticipated interest cost saving on the new loan and the annual interest on all other loans outstanding at the end of the test year, the Commission has included \$271,391 in interest on long-term debt for rate-making purposes herein.

After consideration of these adjustments, the Commission finds Muhlenberg's test period operations to be as follows:

	<u>Merged Test Period Per Staff Audit</u>	<u>Adjustments</u>	<u>Test Period Adjusted</u>
Operating Revenues	\$ 908,700	\$ 77,717	\$ 986,417
Operating Expenses	929,415	28,021	957,436
Net Operating Income	\$ <20,715>	\$ 49,696	\$ 28,981
Other Income	19,377	-0-	19,377
Other Deductions	135,358	140,041	275,399
NET INCOME	<u>\$ <136,696></u>	<u>\$ <90,345></u>	<u>\$ <227,041></u>

¹⁶ Interest Calculation, based on loan closing interest rate per FmHA, for the first quarter of 1987: \$2,141,000 @ 6 5/8% = \$141,841

REVENUE REQUIREMENTS

The Commission is of the opinion that the rates producing the adjusted test-period operating loss for the merged system are unfair, unjust and unreasonable. The Commission finds the Debt Service Coverage ("DSC") method to be an appropriate method of determining revenue requirements in this case and adequate to allow a merged Muhlenberg to pay its operating expenses, meet its debt service requirement and maintain a reasonable surplus.

The Commission has applied a 1.2X DSC to the scheduled average principal and interest payments on the long-term debt due within the next 5 years. Using a 1.2X DSC plus operating expenses and an increase to uncollectible accounts, the Commission finds Muhlenberg's merged total revenue requirement to be \$1,357,716.¹⁷ After consideration of test-year other income of \$19,377, other operating revenues of \$18,213, and adjusted water sales for resale of \$37,982, an increase in annual revenue of \$351,922 from merged water sales will be necessary. The Commission finds that the revenue granted herein will produce gross annual revenue sufficient to pay Muhlenberg's merged operation expenses, service its debt and provide a reasonable surplus.

17	Staff Adjusted Test-Year Operating Expense	\$ 957,436
	ADD:	
	Increase for Uncollectible Accounts	2,010
	Average Debt Service	331,892
	Twenty Percent Coverage	<u>66,378</u>
	TOTAL REVENUE REQUIREMENT	<u>\$1,357,716</u>

The increase in rates should produce gross annual revenues of \$1,357,716 for Muhlenberg, including other income. After deducting annual cash operating expenses of \$730,392,¹⁸ the annual debt service requirement of \$331,892, and other deductions of \$4,008, Muhlenberg will have some \$291,424 available to be set aside for replacement, renewals, extraordinary maintenance and future expansion. Of this amount, \$229,054 is derived from non-cash depreciation expenses. Muhlenberg's bond resolution requires the creation of a depreciation fund which shall be used for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals, or replacements not included in the annual budget of current expenses and the costs of constructing additions and improvements. Section 7(B) requires a monthly deposit of at least \$2,630 into the depreciation fund; however, greater amounts may be set aside upon approval by the Board of Commissioners. With the additional funds available this Commission recommends that Muhlenberg consider setting aside an amount greater than the minimum requirement. The Commission will monitor future annual reports and review future rate proceedings for the proper funding and utilization of additional revenues generated from the allowance of depreciation expense on contributed property.

¹⁸	Adjusted Operating Expense	\$959,446
	LESS:	
	Depreciation Expense	<u>229,054</u>
	CASH OPERATING EXPENSES	<u>\$730,392</u>

The merged system will have four blocks of long-term debt, including one block of long-term debt from Graham. Kentucky Revised Statutes ("KRS") Chapter 74.363; Exhibit L1 - Joint Agreement to Merge; and Exhibit E - Bond Authorizing Resolution all require that the revenues derived from the Graham area of the merged water district shall continue to be applied to the payment of Graham's outstanding bonds until the time that bond issue has been retired. The Commission will monitor future annual reports to verify that these requirements are complied with.

NON-RECURRING CHARGES

Muhlenberg provided cost justification relating to various non-recurring charges. Muhlenberg requested a delinquent service charge of \$22.36 to cover the costs of removing and resetting a meter, a fire hydrant charge of \$1,240 to cover the costs of setting a fire hydrant and a service run fee of \$15 for a meter test.

Muhlenberg provided cost justification to increase its connection fees for a 1-inch connection to \$468, and for a 1 1/2-inch connection to \$851, and a connection fee of \$930 for a 2-inch connection.

The Commission is of the opinion that the cost justification provided by Muhlenberg for these services is adequate, and the non-recurring charges proposed by Muhlenberg should be approved.

Muhlenberg requested that a provision be added to its tariff that would establish a customer deposit that would apply to customers who rent the facilities where service is provided. Muhlenberg provided no support that this charge should be any different than for homeowners. The Commission is of the opinion

that to apply customer deposits only to customers who rent facilities is discriminatory and should not be allowed.

Therefore, the Commission will approve a customer deposit that will be applicable to all customers and should be administered in accordance with 807 KAR 5:006, Section 7, Deposits.

OTHER ISSUES

Merger of Graham into Muhlenberg

Muhlenberg requested the Commission's approval of the merger of Graham into Muhlenberg as one water district, in accordance with the provisions of KRS 74.363. Muhlenberg has been managing and operating Graham since October 1, 1984. The evidence shows that Muhlenberg and Graham have complied with the requirements of KRS 74.363 and therefore, the requested merger should be approved. Muhlenberg should provide the Commission copies of the accounting entries necessary to reflect the merger of the accounting records and these entries should be in compliance with the requirements of the USOA.

Water Loss Demonstration Project

In Case No. 9262, Muhlenberg was authorized a Water Loss Demonstration Project which recovered a 60 cent per bill surcharge for a 3-year period. Muhlenberg was directed to account for all monies received and expended on a quarterly basis as well as identify the sources of the excessive unaccounted-for water, estimate or prioritize the amounts of water loss from each source, and submit to the Commission a detailed plan of time schedules and target results. Muhlenberg filed the required plan and has timely filed its quarterly reports, disclosing that for the period

November 1, 1985, to September 30, 1986, Muhlenberg collected \$26,418 and expended \$27,435.¹⁹

During an 11-month period, Muhlenberg's unaccounted-for water has been 26.5 percent,²⁰ as compared to 25.4 percent²¹ for 1985. The monthly line losses have fluctuated as much during this period as they did in the 1985 test year. In addition, the quarterly reports show that significant amounts of the expenditures have been for items which should constitute normal operating expenses for a water utility which purchases its water, rather than leak survey and pipeline repair costs. For example, \$15,176 was spent on mileage and labor costs associated with the daily reading of master meters.

Under this Order, Muhlenberg will have approximately \$291,000 available for leak detection and reductions. Therefore, since Muhlenberg has sources of funds available its Water Loss

¹⁹ Surcharge Activity:

	<u>Receipts</u>	<u>Expendi- tures</u>
Nov. - Dec., 1985	\$ 4,657	\$ 2,468
Jan. - Mar., 1986	7,333	8,409
April - June, 1986	7,061	8,866
July - Sept., 1986	<u>7,367</u>	<u>7,692</u>
	<u>\$26,418</u>	<u>\$27,435</u>

²⁰ Gallon Loss	100,919,907
Gallons Purchased	<u>+381,292,207</u>
	<u>26.5%</u>

²¹ Gallon Loss	103,076,648
Gallons Purchased	<u>+404,671,348</u>
	<u>25.4%</u>

Demonstration Project is not needed. Funds have not been used for the purposes designed in the project. At the hearing, Muhlenberg's consulting engineer testified that the project had not been effective.²² Thus, as of the effective date of this Order, the Water Loss Demonstration Project is hereby terminated and Muhlenberg shall cease the collection of the 60 cent surcharge as of that date.

SUMMARY

The Commission, after consideration of the evidence of record, and being advised, is of the opinion and finds that:

1. With the appropriate monitoring of service to potential low pressure areas, public convenience and necessity require that the construction proposed in the application be performed and that a certificate of public convenience and necessity be granted.

2. The proposed construction consists of two booster pumping stations, renovation of four booster pumping stations, approximately 30 miles of 12-, 10-, 8-, and 6-inch diameter pipelines, and related appurtenances. The low bids totaled \$1,506,229 which will require about \$2,141,000 after allowances are made for fees, contingencies, other indirect costs, and other construction being considered as a result of receiving bids lower than the final estimate.

3. Muhlenberg should monitor the adequacy of the expanded water distribution system after construction and if the level of service is inadequate or declining, it should take immediate

²² Hearing Transcript dated December 4, 1986, pages 55-58.

action to maintain the level of service in conformance with the regulations of the Commission.

4. Prior to the installation of any hydropneumatic station Muhlenberg should file the pertinent design and cost information for this construction with the Commission. Muhlenberg should also file a copy of the approval letter from the Division of Water.

5. Muhlenberg should obtain approval from the Commission prior to performing any additional construction not expressly certificated by this Order. This includes the proposed construction in Graham and the Lone Star and Highway 600 areas.

6. Any deviations from the construction herein approved which could adversely affect service to any customer should be done only with the prior approval of the Commission.

7. Muhlenberg should furnish duly verified documentation of the total cost of this project including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed. Said construction costs should be classified into appropriate plant accounts in accordance with the USOA for Water Utilities prescribed by the Commission.

8. Muhlenberg's contract with its Engineer should require the provision of full-time resident inspection under the general supervision of a professional engineer with a Kentucky registration in civil or mechanical engineering, to ensure that the construction work is done in accordance with the contract drawings and specifications and in conformance with the best practices of the construction trades involved in the project.

9. Muhlenberg should require the Engineer to furnish a copy of the "as-built" drawings and a signed statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the date of substantial completion of this construction.

10. The financing plan proposed by Muhlenberg is for the lawful objects within the corporate purpose of its utility operations, is necessary and appropriate for and consistent with the proper performance of its service to the public and will not impair its ability to perform that service and should, therefore, be approved.

11. The financing secured by Muhlenberg for this project will be needed to pay for the work herein approved. Muhlenberg's financing plan should, therefore, be approved.

12. The merger of Graham into Muhlenberg in accordance with KRS 74.363 should be approved. Muhlenberg should take the appropriate action defined in KRS 74.110 to revise its boundaries to reflect all areas presently served by Muhlenberg and Graham. A copy of the county court order delineating the revised boundaries should be filed with the Commission within 90 days of the date of this Order.

13. The non-recurring charges set out in this Order should be approved.

14. Within 60 days of the date of this Order, Muhlenberg should file with this Commission all of the applicable accounting entries necessary to reflect the merger. The merged accounting records should conform with the requirements of the USoA.

15. The rates proposed by Muhlenberg would produce revenue in excess of that found reasonable herein and therefore should be denied.

16. The rates in Appendix A are the fair, just and reasonable rates for Muhlenberg in that they are calculated to produce gross annual revenue from water sales of \$1,320,126. These revenues will be sufficient to meet Muhlenberg's operating expenses found reasonable for rate-making purposes, service its debt and provide a reasonable surplus.

17. Muhlenberg should reduce the levels of overtime work and expenses by hiring additional personnel and establishing stricter controls over the earning of overtime.

18. Upon the merger of Graham into Muhlenberg, Graham's utility plant totaling \$55,280 which has been retired in place, should be removed from the plant account records.

19. Muhlenberg's Water Loss Demonstration Project should be terminated and it should cease the collection of a 60 cent per bill surcharge.

IT IS THEREFORE ORDERED that:

1. Muhlenberg be and it hereby is granted a certificate of public convenience and necessity to proceed with the proposed construction project as set forth in the drawings and specifications of record herein on the condition that the potential low pressure areas be monitored and corrective action taken in accordance with Finding Number 1 and Finding Number 3 of this Order.

2. Muhlenberg's financing plan consisting of an FmHA loan of \$2,141,000 be and it hereby is approved.

3. If under new FmHA loan conditions Muhlenberg is notified and granted the option of accepting a lower interest rate at the date of closing, Muhlenberg shall file with the Commission the FmHA notification of the lower interest rate and shall provide all correspondence from and to FmHA concerning this notification within 30 days of the closing date.

4. Muhlenberg shall file a statement of the interest rate accepted from FmHA within 30 days of the date of closing.

5. If Muhlenberg accepts an interest rate different from the rate approved herein, it shall file amended pages to its bond resolution and an amended amortization schedule.

6. If Muhlenberg is eligible but does not take advantage of a lower interest rate at the time of closing, it shall fully document why the lower rate was not accepted showing an analysis of the higher costs associated with the loan over its life.

7. Muhlenberg shall comply with all matters set out in Findings 3 through 9 and Finding 12 as if the same were individually so ordered.

8. The non-recurring charges set out in Appendix A be and they hereby are approved.

9. The merger of Graham into Muhlenberg is approved.

10. The rates proposed by Muhlenberg are denied.

11. The rates and charges in Appendix A are approved for service rendered by the merged Muhlenberg system on and after the date of this Order.

12. Within 30 days from the date of this Order, Muhlenberg shall file with this Commission its revised tariff sheets setting out the rates for the merged system approved herein.

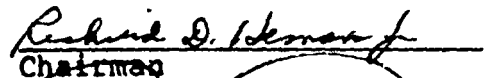
13. Muhlenberg's Water Loss Demonstration Project is hereby terminated.

14. Within 60 days from the date of this Order, Muhlenberg shall file all applicable accounting entries to reflect the merger of Graham into Muhlenberg. It shall also file accounting entries to remove \$55,280 of utility plant from the combined utility plant accounts to reflect Graham's utility plant retired in place. All accounting entries are to be in accordance with the USoA.

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein authorized.

Done at Frankfort, Kentucky, this 28th day of January, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 9539 DATED 1/28/87

The following rates and charges are prescribed for the customers in the area served by Muhlenberg County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

RATES: Monthly

5/8 x 3/4 Inch Connection

First 2,000 gallons	\$10.10 Minimum Bill
Next 8,000 gallons	4.60 per 1,000 gallons
Next 10,000 gallons	4.00 per 1,000 gallons
Next 30,000 gallons	3.35 per 1,000 gallons
Over 50,000 gallons	2.45 per 1,000 gallons

1 Inch Connection

First 5,000 gallons	\$23.90 Minimum Bill
Next 5,000 gallons	4.60 per 1,000 gallons
Next 10,000 gallons	4.00 per 1,000 gallons
Next 30,000 gallons	3.35 per 1,000 gallons
Over 50,000 gallons	2.45 per 1,000 gallons

1 1/2 Inch Connection

First 11,000 gallons	\$50.90 Minimum Bill
Next 9,000 gallons	4.00 per 1,000 gallons
Next 30,000 gallons	3.35 per 1,000 gallons
Over 50,000 gallons	2.45 per 1,000 gallons

2 Inch Connection

First 16,000 gallons	\$70.90 Minimum Bill
Next 4,000 gallons	4.00 per 1,000 gallons
Next 30,000 gallons	3.35 per 1,000 gallons
Over 50,000 gallons	2.45 per 1,000 gallons

Wholesale Customer

Drakesboro	\$ 1.80 per 1,000 gallons
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Non-Recurring Charges

Service Run Fee	\$15.00
Delinquent Service Charge	22.35
Customer Deposit	twice one average monthly water bill

Connection Fees

1 Inch Connection	\$468.00
1 1/2 Inch Connection	851.00
2 Inch Connection	930.00
Fire Hydrant	\$1,240